

October 23, 2013

Electronic Filing

Ms. Marlene H. Dortch
Office of Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: WC Docket No. 10-90
Annual §54.313/54.422 Report of High-Cost and Low Income Recipient, Form 481

Dear Ms. Dortch:

Enclosed herein is the annual report for Pioneer Telephone Cooperative, Study Area Code 532393 pursuant to §54.313/54.422 of the Commission's rules.

Please contact me with any questions at:

Phone: 541-929-8256
Email: mikewhalen@pioneer.net

Sincerely,



Michael Whalen, CPA

Attachment

Copies to:

Universal Service Administrative Company
Electronic Filing
Washington, DC 20036

Public Utility Commission of Oregon
Electronic Filing

**FCC Form 481 - Carrier Annual Reporting
Data Collection Form**

 FCC Form 481
 OMB Control No. 3060-0986/OMB Control No. 3060-0819
 July 2013

<010> Study Area Code	532393
<015> Study Area Name	PIONEER TEL COOP
<020> Program Year	2014
<030> Contact Name: Person USAC should contact with questions about this data	MICHAEL WHALEN
<035> Contact Telephone Number: Number of the person identified in data line <030>	541-929-8256
<039> Contact Email Address: Email of the person identified in data line <030>	mikewhalen@pioneer.net

ANNUAL REPORTING FOR ALL CARRIERS			54.313 Completion Required	54.422 Completion Required
(check box when complete)				
<100> Service Quality Improvement Reporting	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
<200> Outage Reporting (voice)	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
<210> <input checked="" type="checkbox"/> <-- check box if no outages to report				
<300> Unfulfilled Service Requests (voice)	<input type="text" value="0"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
<310> Detail on Attempts (voice)	(attach descriptive document)	<input type="checkbox"/>	<input type="checkbox"/>	
<320> Unfulfilled Service Requests (broadband)	<input type="text" value="0"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
<330> Detail on Attempts (broadband)	(attach descriptive document)	<input type="checkbox"/>	<input type="checkbox"/>	
<400> Number of Complaints per 1,000 customers (voice)		<input checked="" type="checkbox"/>	<input type="checkbox"/>	
<410> Fixed	<input type="text" value="0.1"/>			
<420> Mobile	<input type="text" value="0.0"/>			
<430> Number of Complaints per 1,000 customers (broadband)				
<440> Fixed	<input type="text"/>			
<450> Mobile	<input type="text"/>			
<500> Service Quality Standards & Consumer Protection Rules Compliance	(check to indicate certification)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
<510> 532393OR510	(attached descriptive document)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
<600> Functionality in Emergency Situations	(check to indicate certification)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
<610> 532393OR610	(attached descriptive document)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
<700> Company Price Offerings (voice)	(complete attached worksheet)	<input type="checkbox"/>	<input type="checkbox"/>	
<710> Company Price Offerings (broadband)	(complete attached worksheet)	<input type="checkbox"/>	<input type="checkbox"/>	
<800> Operating Companies and Affiliates	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
<900> Tribal Land Offerings (Y/N)? <input type="radio"/> <input checked="" type="radio"/>	(if yes, complete attached worksheet)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
<1000> Voice Services Rate Comparability	(check to indicate certification)	<input type="checkbox"/>	<input type="checkbox"/>	
<1010>	(attach descriptive document)	<input type="checkbox"/>	<input type="checkbox"/>	
<1100> Terrestrial Backhaul (Y/N)? <input checked="" type="radio"/> <input type="radio"/>	(if not, check to indicate certification)	<input type="checkbox"/>	<input type="checkbox"/>	
<1110>	(complete attached worksheet)	<input type="checkbox"/>	<input type="checkbox"/>	
<1200> Terms and Condition for Lifeline Customers	(complete attached worksheet)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
Price Cap Carriers, Proceed to Price Cap Additional Documentation Worksheet Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers				
<2000>	(check to indicate certification)	<input type="checkbox"/>	<input type="checkbox"/>	
<2005>	(complete attached worksheet)	<input type="checkbox"/>	<input type="checkbox"/>	
Rate of Return Carriers, Proceed to ROR Additional Documentation Worksheet				
<3000>	(check to indicate certification)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
<3005>	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	

**(100) Service Quality Improvement Reporting
Data Collection Form**

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July 2013

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<039>	Contact Email Address - Email Address of person identified in data line <030>	mikewhalen@pioneer.net
<110>	Has your company received its ETC certification from the FCC? If your answer to Line <110> is yes, do you have an existing "5 year plan" filed with the FCC?	<input type="radio"/> (yes / no) <input checked="" type="radio"/> (yes / no)
<111>		<input type="radio"/> (yes / no) <input type="radio"/> (yes / no)

If your answer to Line <111> is yes, then you are required to file a progress report, on line <112> delineating the status of your company's existing § 54.202(a) "5 year plan" on file with the FCC, as it relates to your provision of voice telephony service.

<112> Attach Five-Year Service Quality Improvement Plan or, in subsequent years, your annual progress report filed pursuant to 47 C.F.R. § 54.313(a)(1). If your company is a CETC which only receives frozen support, your progress report is only required to address voice telephony service.

Name of Attached Document (.pdf)

Please check these boxes below to confirm that the attached PDF, on line 112, contains a progress report on its five-year service quality improvement plan pursuant to § 54.202(a). The information shall be submitted at the wire center level or census block as appropriate.

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<113> Maps detailing progress towards meeting plan targets
 <114> Report how much universal service (USF) support was received
 <115> How (USF) was used to improve service quality
 <116> How (USF) was used to improve service coverage
 <117> How (USF) was used to improve service capacity
 <118> Provide an explanation of network improvement targets not met in the prior calendar year.

**(900) Tribal Lands Reporting
Data Collection Form**

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

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<030>	Contact Name - Person USAC should contact regarding this data	MICHAEL WHALEN
<035>	Contact Telephone Number - Number of person identified in data line <030>	541-929-8256
<039>	Contact Email Address - Email Address of person identified in data line <030>	mikewhalen@pioneer.net

<910> Tribal Land(s) on which ETC Serves

<920> Tribal Government Engagement Obligation

Name of Attached Document (.pdf)

If your company serves Tribal lands, please select (Yes, No, NA) for each these boxes to confirm the status described on the attached PDF, on line 920, demonstrates coordination with the Tribal government pursuant to § 54.313(a)(9) includes:

	Select (Yes, No, NA)
<921> Needs assessment and deployment planning with a focus on Tribal community anchor institutions;	
<922> Feasibility and sustainability planning;	
<923> Marketing services in a culturally sensitive manner;	
<924> Compliance with Rights of way processes	
<925> Compliance with Land Use permitting requirements	
<926> Compliance with Facilities Siting rules	
<927> Compliance with Environmental Review processes	
<928> Compliance with Cultural Preservation review processes	
<929> Compliance with Tribal Business and Licensing requirements.	

**(1100) No Terrestrial Backhaul Reporting
Data Collection Form**

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☐

Please check this box to confirm no terrestrial backhaul options exist within the supported area pursuant to § 54.313(G)

☐

Please check this box to confirm the reporting carrier offers broadband service of at least 1 Mbps downstream and 256 kbps upstream within the supported area pursuant to § 54.313(G)

(1200) Terms and Condition for Lifeline Customers
Lifeline
Data Collection Form

FCC Form 481
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 July 2013

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<039>	Contact Email Address - Email Address of person identified in data line <030>	mikewhalen@pioneer.net

<1210> Terms & Conditions of Voice Telephony Lifeline Plans

Name of attached document (.pdf)

<1220> Link to Public Website

HTTP www.pioneer.net

"Please check these boxes below to confirm that the attached PDF, on line 1210, or the website listed, on line 1220, contains the required information pursuant to § 54.422(a)(2) annual reporting for ETCs receiving low-income support, carriers must annually report:

- <1221> Information describing the terms and conditions of any voice telephony service plans offered to Lifeline subscribers, ☒
- <1222> Details on the number of minutes provided as part of the plan, ☒
- <1223> Additional charges for toll calls, and rates for each such plan. ☒

(2000) Price Cap Carrier Additional Documentation**Data Collection Form***Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers*

FCC Form 481

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<039>	Contact Email Address - Email Address of person identified in data line <030>	mikewhalen@pioneer.net

CHECK the boxes below to note compliance as a recipient of Incremental Connect America Phase I support, frozen High Cost support, High Cost support to offset access charge reductions, and Connect America Phase II support as set forth in 47 CFR § 54.313(b),(c),(d),(e) the information reported on this form and in the documents attached below is accurate.

Incremental Connect America Phase I reporting

- <2010> 2nd Year Certification (47 CFR § 54.313(b)(1))
- <2011> 3rd Year Certification (47 CFR § 54.313(b)(2))

--

Price Cap Carrier Receiving Frozen Support Certification (47 CFR § 54.312(a))

- <2012> 2013 Frozen Support Certification
- <2013> 2014 Frozen Support Certification
- <2014> 2015 Frozen Support Certification
- <2015> 2016 and future Frozen Support Certification

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Price Cap Carrier Connect America ICC Support (47 CFR § 54.313(d))

- <2016> Certification Support Used to Build Broadband

--

Connect America Phase II Reporting (47 CFR § 54.313(e))

- <2017> 3rd year Broadband Service Certification
- <2018> 5th year Broadband Service Certification
- <2019> Interim Progress Certification
- <2020> Please check the box to confirm that the attached PDF, on line 2021, contains the required information pursuant to § 54.313 (e)(3)(ii), as a recipient of CAF Phase II support shall provide the number, names, and addresses of community anchor institutions to which began providing access to broadband service in the preceding calendar year.
- <2021> Interim Progress Community Anchor Institutions

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Name of Attached Document Listing Required Information

(3000) Rate Of Return Carrier Additional Documentation
Data Collection Form

FCC Form 481
 OMB Control No. 3060-0986/OMB Control No. 3060-0819
 July 2013

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<039>	Contact Email Address - Email Address of person identified in data line <030>	mi.kewhalen@pioneer.net

CHECK the boxes below to note compliance on its five year service quality plan (pursuant to 47 CFR § 54.202(a)) and, for privately held carriers, ensuring compliance with the financial reporting requirements set forth in 47 CFR § 54.313(f)(2). I further certify that the information reported on this form and in the documents attached below is accurate.

Progress Report on 5 Year Plan

	Name of Attached Document Listing Required Information	(Yes/No)
(3010) Milestone Certification (47 CFR § 54.313(f)(1)(i)) Please check this box to confirm that the attached PDF, on line 3012, contains the required information pursuant to § 54.313 (f)(1)(ii), as a recipient of CAF Phase II support shall provide the number, names, and addresses of community anchor institutions to which began providing access to broadband service in the preceding calendar year.		<input type="checkbox"/>
(3011) Community Anchor Institutions (47 CFR § 54.313(f)(1)(iii)) Is your company a Privately Held ROR Carrier (47 CFR § 54.313(f)(2))? If yes, does your company file the RUS annual report? Please check these boxes to confirm that the attached PDF, on line 3017, contains the required information pursuant to § 54.313(f)(2) compliance requires: Electronic copy of their annual RUS reports (Operating Report for Telecommunications Borrowers)		<input checked="" type="checkbox"/> (Yes/No) <input type="checkbox"/> (Yes/No)
(3012) PDF of Balance Sheet, Income Statement and Statement of Cash Flows		<input type="checkbox"/>
(3013) If the response is yes on line 3014, attach your company's RUS annual report and all required documentation		<input type="checkbox"/>
(3014) If the response is no on line 3014, is your company audited? If the response is yes on line 3018, please check the boxes below to confirm your submission, on line 3026 pursuant to § 54.313(f)(2), contains: Either a copy of their audited financial statement; or (2) a financial report in a format comparable to RUS Operating Report for Telecommunications PDF of Balance Sheet, Income Statement and Statement of Cash Flows		<input checked="" type="checkbox"/> (Yes/No)
(3015) Management letter issued by the independent certified public accountant that performed the company's financial audit.		<input checked="" type="checkbox"/>
(3016) If the response is no on line 3018, please check the boxes below to confirm your submission, on line 3026 pursuant to § 54.313(f)(2), contains: Copy of their financial statement which has been subject to review by an independent certified public accountant; or 2) a financial report in a format comparable to RUS Operating Report for Telecommunications Borrowers,		<input type="checkbox"/>
(3017) Underlying information subjected to a review by an independent certified public accountant		<input type="checkbox"/>
(3018) Underlying information subjected to an officer certification.		<input type="checkbox"/>
(3019) PDF of Balance Sheet, Income Statement and Statement of Cash Flows		<input type="checkbox"/>
(3020) Attach the worksheet listing required information		<input type="checkbox"/>

532393OR3026

**Certification - Reporting Carrier
Data Collection Form**

 FCC Form 481
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<039>	Contact Email Address - Email Address of person identified in data line <030>	mikewhalen@pioneer.net

TO BE COMPLETED BY THE REPORTING CARRIER, IF THE REPORTING CARRIER IS FILING ANNUAL REPORTING ON ITS OWN BEHALF:
Certification of Officer as to the Accuracy of the Data Reported for the Annual Reporting for CAF or LI Recipients

I certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual reporting requirements for universal service support recipients; and, to the best of my knowledge, the information reported on this form and in any attachments is accurate.

Name of Reporting Carrier: PIONEER TEL COOP

Signature of Authorized Officer: CERTIFIED ONLINE

Date

Printed name of Authorized Officer: Michael Whalen

Title or position of Authorized Officer: Assistant Treasurer

Telephone number of Authorized Officer: 541-929-8256

Study Area Code of Reporting Carrier: 532393

Filing Due Date for this form: 10/15/2013

Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.

**Certification - Agent / Carrier
Data Collection Form**

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<039>	Contact Email Address - Email Address of person identified in data line <030>	mikewhalen@pioneer.net

TO BE COMPLETED BY THE REPORTING CARRIER, IF AN AGENT IS FILING ANNUAL REPORTS ON THE CARRIER'S BEHALF:

Certification of Officer to Authorize an Agent to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier	
I certify that (Name of Agent) _____ is authorized to submit the information reported on behalf of the reporting carrier. I also certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual data reporting requirements provided to the authorized agent; and, to the best of my knowledge, the reports and data provided to the authorized agent is accurate.	
Name of Authorized Agent: _____	
Name of Reporting Carrier: _____	
Signature of Authorized Officer: _____	Date: _____
Printed name of Authorized Officer: _____	
Title or position of Authorized Officer: _____	
Telephone number of Authorized Officer: _____	
Study Area Code of Reporting Carrier: _____	Filing Due Date for this form: _____
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

TO BE COMPLETED BY THE AUTHORIZED AGENT:

Certification of Agent Authorized to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier	
I, as agent for the reporting carrier, certify that I am authorized to submit the annual reports for universal service support recipients on behalf of the reporting carrier; I have provided the data reported herein based on data provided by the reporting carrier; and, to the best of my knowledge, the information reported herein is accurate.	
Name of Reporting Carrier: _____	
Name of Authorized Agent or Employee of Agent: _____	
Signature of Authorized Agent or Employee of Agent: _____	Date: _____
Printed name of Authorized Agent or Employee of Agent: _____	
Title or position of Authorized Agent or Employee of Agent: _____	
Telephone number of Authorized Agent or Employee of Agent: _____	
Study Area Code of Reporting Carrier: _____	Filing Due Date for this form: _____
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

Attachments

FCC Form 481
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<039>	Contact Email Address - Email Address of person identified in data line <030>	mikewhalen@pioneer.net
<810>	Reporting Carrier	Pioneer Telephone Cooperative
<811>	Holding Company	N/A
<812>	Operating Company	Pioneer Telephone Cooperative

[illegible]

PIONEER TELEPHONE COOPERATIVE

2013 FCC Form 481

(510) Service Quality Standards & Consumer Protection Rules Compliance

- 47 CFR § 54.202(a)(1)(i) – Pioneer Telephone Cooperative will make reasonable efforts to comply with the service requirements applicable to the support it receives, specifically:
High Cost Loop Support – the services listed and defined in 47 CFR § 54.101(a).
Lifeline Support – the three criteria set forth in 47 CFR § 54.401(a).
Interstate Common Line Support – the filings required in 47 CFR § 54.903 and the certification required in 47 CFR § 54.
- 47 CFR § 54.313(a)(5) – Pioneer Telephone Cooperative will make reasonable efforts to comply with applicable service quality standards as stated in Oregon Administrative Rules 860-034-0390, Retail Telecommunications Service Standards for Small Telecommunications Utilities and consumer protection rules as defined in 47 CFR Part 64 Subpart U, Customer Proprietary Network Information and the Federal Trade Commission Red Flag rules to prevent identity theft.

PIONEER TELEPHONE COOPERATIVE

2013 FCC Form 481

(600) Functionality in Emergency Situations

Back-up Power

Pioneer Telephone Cooperative has the following back-up power capabilities:

Switches (stand alone and/or host), Remote Central Offices, Subscriber Carrier, DLC:

See next page for the list of back-up power capabilities

Network Interface Devices (NIDs)

Pioneer Telephone Cooperative has 10,895 access lines with metallic (copper) connections to the Central Office and their NIDs are powered from the Central Office.

Pioneer Telephone Cooperative has 278 access lines with non-metallic (fiber optic) connections to the Central Office. Of these, 115 NIDs are battery powered in case of emergency, with batteries rated at 8 hours based on Telcordia GR-909 specifications, and 163 NIDs are powered from the Central Office with SureReach technology by Generonix®.

Ability to reroute traffic around damaged facilities:

Pioneer Telephone Cooperative has built redundant facilities between its exchanges and its connecting company. This redundant facility is in the form of a SONET ring with alternate physical facilities between **Pioneer Telephone Cooperative** and **CenturyLink**, its interconnection to the Public Switched Telephone Network.

Capability to manage traffic spikes resulting from emergency situations

Pioneer Telephone Cooperative has 9,508 customers, switching capacity of 4,345 simultaneous calls, and transport capacity for 1,600 simultaneous calls. **Pioneer Telephone Cooperative** takes no responsibility for the capabilities of interconnected networks to manage traffic spikes resulting from emergency situations, but will continue its best efforts for its networks during such events.

Back-up Power

Switches	Remote Central Offices	Subscriber Carrier	KW	FUEL TYPE	FUEL TANK	GEN. RUN TIME	BATT. A.H	BATT. BACK-UP
Philomath			200	Diesel	520	52 HR.	3135	8 HR.
	Alsea		30	Diesel	550	183 HR.	1000	14.25 HR.
	Bellfountain		25	Diesel	30	30 HR.	2090	26 HR.
	Blodgett		25	Diesel	30	30 HR.	930	16.5 HR.
	Chitwood		25	Diesel	30	30 HR.	1000	14.50 HR.
	Deadwood		15	Diesel	220	183 HR.	400	8.9 HR.
	South Beach		80	Diesel	250	48 HR.	2090	22.25 HR.
	Waldport		75	Diesel	280	60 HR.	2090	14.25 HR.
	Yachats		30	Diesel	250	104 HR.	2090	17 HR.
	Harlan		15	Diesel	132	121 HR.	500	16 HR.
	Lobster Valley		15	Diesel	132	121 HR.	775	31 HR.
		Horton	25	DIESEL	30	30 HR.	310	82.5 HR.
		Tidewater	13	PROPANE	120	85 HR.	465	31.5 HR.
		Triangle Lake	30	DIESEL	550	229 HR.	465	74.25 HR.
		Alexander Road					155	77 HR.
		Bayshore					620	24.75 HR.
		Bayview					290	37.25 HR.
		Beamer Creek					155	88.5 HR.
		Beaver Valley					290	46.25 HR.
		Big Elk Creek					155	62 HR.
		Blachly					170	18.60 HR.
		Brush Creek					225	163 HR.
		Buck Creek					290	55 HR.
		Bummer Creek					300	68.5 HR.
		Bunker Hill					125	37 HR.
		Campbell Park					155	77.5 HR.
		Cedar Creek					245	115 HR.
		Clem Road					290	38.6 HR.
		Crooked Creek					290	38.6 HR.
		Darkey Creek					290	31.6 HR.
		Decker Ridge					145	72.5 HR.
		Decker Road					155	13.75 HR.
		Eckman					465	32.6 HR.
		Eddyville					100	13.25 HR.
		Elk City					155	72.75 HR.
		Elk Mountain Rd.					145	46.4 HR.
		Ervin Road					290	19 HR.
		Evergreen Rd					125	31.25 HR.
		Five Rivers					155	77.5 HR.
		Foster Road					255	24.75 HR.
		Grand Oaks					600	43.0 HR.
		Harris Road					290	32 HR.
		Henderson Rd					290	38.5 HR.
		Hidden Valley					290	38.5 HR.
		Honeygrove					125	90.75 HR.
		Hutchcroft Road					155	82.5 HR.
		Idaho St.					435	33 HR.
		Johnson Creek					155	112 HR.
		Keller Creek					155	47.5 HR.
		Kings Valley					620	56.25 HR.
	Fort Hoskins					Line Powered From Kings valley		
	Legion Road						435	31.5 HR.
	Little Lobster Creek						155	35.25 HR.
	Lost Creek						465	47.5 HR.
	Makai						310	27.5 HR.
	Mary's Peak						290	225 HR.
	Marys River Est						290	18.5 HR.

Pioneer Telephone Cooperative
Back-up Power

Remote Central Offices	Subscriber Carrier	KW	FUEL TYPE	FUEL TANK	GEN. RUN TIME	BATT. A.H	BATT. BACK-UP
	McGarry					310	31 HR.
	Misty Acres Rd.					155	35.25 HR.
	Nashville					100	80 HR.
	Neabeack Hill					375	27.25 HR.
	Nelson Creek					155	47.5 HR.
	North Beaver					145	72.5 HR.
	Norton Creek					125	30.25 HR.
	Oglesby Creek					125	22.20 HR.
	Old Peak					125	40 HR.
	Oliver Creek					155	95.25 HR.
	Pit Road					125	76.75 HR.
	Preacher Creek					145	33.0 HR.
	Rock Creek					155	77.50 HR.
	Sam's Creek					80	33.5 HR.
	Sea Lion Caves					300	50 HR.
	Seal Rock					600	29 HR.
	Shingle Creek					300	140 HR.
	Shotpouch					155	112 HR.
	Slide Creek					155	35.25 HR.
	South Bay Rd					145	96.5 HR.
	South Beaver					290	46.25 HR.
	South Harris					145	105 HR.
	Summit					620	82.50 HR.
	Swamp Creek Rd.					155	77.5 HR.
	Ten Mile					500	31.50 HR.
	Thiel Creek					435	30.5 HR.
	Thissell					155	42.75 HR.
	Tobacco Road					270	72 HR.
	Wakonda Beach					600	47.5 HR.
	Ward Road					145	77.25 HR.
	Washburne S.P.					300	80 HR.
	West Elk					145	77.25 HR.
	West Fork					155	82.5 HR.
	West Hills					290	21 HR.
	Westwood Village					375	31.5 HR.
	Wildwood					270	54 HR.
	Wolfe Creek					290	210 HR.
	Woods Creek					290	35 HR.
	Yachats River Rd					290	46.25 HR.
	Yates					120	12 HR.



PIONEER TELEPHONE COOPERATIVE AND SUBSIDIARY

Consolidated Financial Statements

Years Ended December 31, 2012 and 2011



PIONEER TELEPHONE COOPERATIVE AND SUBSIDIARY

Consolidated Financial Statements

Years Ended December 31, 2012 and 2011

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Balance Sheets	2
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Members' Equity	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pioneer Telephone Cooperative and Subsidiary
Philomath, Oregon

We have audited the accompanying consolidated financial statements of Pioneer Telephone Cooperative and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pioneer Telephone Cooperative and Subsidiary, as of December 31, 2012 and 2011, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

AKT LLP

Salem, Oregon
April 5, 2013

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AKT LLP

PIONEER TELEPHONE COOPERATIVE AND SUBSIDIARY**Consolidated Balance Sheets**

December 31, 2012 and 2011

ASSETS	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash and cash equivalents	\$ 3,817,551	\$ 2,270,582
Accounts receivable, less allowance for doubtful accounts of \$10,000	271,309	280,236
Other receivables	1,127,304	951,817
Materials and supplies	315,539	320,165
Prepaid expenses	<u>244,675</u>	<u>284,405</u>
Total Current Assets	<u>5,776,378</u>	<u>4,107,205</u>
Other Assets and Investments	<u>3,245,734</u>	<u>3,121,372</u>
Property, Plant, and Equipment:		
In service	72,057,085	72,768,626
Under construction	<u>54,261</u>	<u>89,515</u>
	72,111,346	72,858,141
Less accumulated depreciation	<u>53,061,413</u>	<u>51,201,011</u>
Property, Plant, and Equipment, net	<u>19,049,933</u>	<u>21,657,130</u>
	<u>\$ 28,072,045</u>	<u>\$ 28,885,707</u>

LIABILITIES AND MEMBERS' EQUITY	<u>2012</u>	<u>2011</u>
Current Liabilities:		
Accounts payable	\$ 141,775	\$ 187,636
Accrued expenses	870,103	1,180,617
Current portion of long-term debt	<u>1,840,910</u>	<u>2,454,545</u>
Total Current Liabilities	<u>2,852,788</u>	<u>3,822,798</u>
 Long-Term Liabilities:		
Deferred Income Taxes	49,593	-
Long-Term Debt	<u>-</u>	<u>1,840,910</u>
Total Long-Term Liabilities	<u>49,593</u>	<u>1,840,910</u>
 Members' Equity:		
Memberships	9,793	10,031
Patronage capital	20,764,239	18,974,938
Other equity	<u>4,395,632</u>	<u>4,237,030</u>
Total Members' Equity	<u>25,169,664</u>	<u>23,221,999</u>
	<u>\$ 28,072,045</u>	<u>\$ 28,885,707</u>

PIONEER TELEPHONE COOPERATIVE AND SUBSIDIARY**Consolidated Statements of Operations**

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Local network	\$ 3,634,975	\$ 3,813,593
Network access	11,224,706	9,229,258
Miscellaneous	<u>1,190,556</u>	<u>1,182,865</u>
 Total Operating Revenues	 <u>16,050,237</u>	 <u>14,225,716</u>
 Operating Expenses:		
Plant specific	2,825,068	2,758,041
Plant nonspecific	1,860,288	1,943,288
Customer	2,526,141	2,584,202
Corporate	1,944,129	1,897,298
Depreciation	4,020,812	4,365,097
Other taxes	406,145	407,331
Other operating expenses	<u>402,957</u>	<u>416,066</u>
 Total Operating Expenses	 <u>13,985,540</u>	 <u>14,371,323</u>
 Operating Margin (Loss)	 <u>2,064,697</u>	 <u>(145,607)</u>
 Other Income (Expense):		
Interest and other income (expense)	117,868	187,932
Income tax expense	(85,051)	(3,894)
Net nonregulated loss	(11,473)	(16,379)
Income from other investments	<u>84,524</u>	<u>263,675</u>
 Total Other Income, net	 <u>105,868</u>	 <u>431,334</u>
 Margin Available for Fixed Charges	 2,170,565	 285,727
 Fixed Charges - Interest on Long-Term Debt	 <u>212,369</u>	 <u>375,938</u>
 Net Margin (Loss)	 <u>\$ 1,958,196</u>	 <u>\$ (90,211)</u>

PIONEER TELEPHONE COOPERATIVE AND SUBSIDIARY**Consolidated Statements of Changes in Members' Equity**

December 31, 2012 and 2011

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Other Equity</u>	<u>Total</u>
Balance, December 31, 2010	\$ 10,518	\$ 18,988,907	\$ 4,327,241	\$ 23,326,666
Net decrease in refundable memberships	(487)	-	-	(487)
Redemption of patronage capital	-	(13,969)	-	(13,969)
Net Loss	<u>-</u>	<u>-</u>	<u>(90,211)</u>	<u>(90,211)</u>
Balance, December 31, 2011	\$ <u>10,031</u>	\$ <u>18,974,938</u>	\$ <u>4,237,030</u>	\$ <u>23,221,999</u>
Net decrease in refundable memberships	(238)	-	-	(238)
Redemption of patronage capital	-	(10,293)	-	(10,293)
Other adjustments	-	(2,630)	2,630	-
Net Income	<u>-</u>	<u>1,802,224</u>	<u>155,972</u>	<u>1,958,196</u>
Balance, December 31, 2012	\$ <u>9,793</u>	\$ <u>20,764,239</u>	\$ <u>4,395,632</u>	\$ <u>25,169,664</u>

PIONEER TELEPHONE COOPERATIVE AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Net margin (loss)	\$ 1,958,196	\$ (90,211)
Adjustments to reconcile net margin (loss) to net cash provided by operating activities:		
Depreciation	4,020,812	4,365,097
Income from investments	(112,524)	(290,826)
Change in deferred taxes	49,593	-
Changes in assets and liabilities:		
Accounts receivable	8,927	(1,078)
Other receivables	(175,487)	(38,519)
Materials and supplies	4,626	138,082
Prepaid expenses	39,730	(50,287)
Accounts payable	(45,861)	(144,365)
Accrued expenses	(310,514)	117,261
Net Cash Provided by Operating Activities	<u>5,437,498</u>	<u>4,005,154</u>
Cash Flows from Investing Activities:		
Purchase of property, plant, and equipment, net	(1,413,615)	(2,471,554)
Purchases of other investments	(18,588)	-
Proceeds from other investments	<u>6,750</u>	<u>6,750</u>
Net Cash Used by Investing Activities	<u>(1,425,453)</u>	<u>(2,464,804)</u>
Cash Flows from Financing Activities:		
Payments on long-term debt	(2,454,545)	(2,454,545)
Net change in memberships	(238)	(487)
Payments of capital credits, net	<u>(10,293)</u>	<u>(13,969)</u>
Net Cash Used by Financing Activities	<u>(2,465,076)</u>	<u>(2,469,001)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,546,969	(928,651)
Cash and Cash Equivalents, beginning	<u>2,270,582</u>	<u>3,199,233</u>
Cash and Cash Equivalents, ending	\$ <u><u>3,817,551</u></u>	\$ <u><u>2,270,582</u></u>
Cash Paid During the Year for Interest Net of Amounts Capitalized	\$ <u><u>236,885</u></u>	\$ <u><u>385,304</u></u>

PIONEER TELEPHONE COOPERATIVE AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012 and 2011

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

Pioneer Telephone Cooperative (the Cooperative) is an Oregon cooperative corporation providing telecommunications services from within and around the City of Philomath, Oregon to the City of Waldport, Oregon. The Cooperative invests in other telecommunication-related ventures through its wholly-owned subsidiary, Pioneer Consolidated, Inc.

Basis of Consolidation

The consolidated financial statements include the accounts of Pioneer Telephone Cooperative and its wholly-owned subsidiary, Pioneer Consolidated, Inc. (the Subsidiary). All intercompany transactions and balances have been eliminated in the consolidation.

Estimates

The Cooperative uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Regulation

The Cooperative is subject to limited regulation by the Public Utility Commission of Oregon (PUC). The Cooperative maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the Federal Communications Commission (FCC) and adopted by the PUC. As a result, the application of accounting principles generally accepted in the United States of America by the Cooperative differs in certain respects from the application by nonregulated businesses. Such differences primarily concern the time at which certain items enter into the determination of net margin.

Regulatory and legislative actions, as well as future regulations, could have a significant impact on the Cooperative's future operations and financial condition. See Note 1, National Broadband Plan and FCC Order.

Cash and Cash Equivalents

The Cooperative considers cash investments with an original maturity of 3 months or less to be cash equivalents. The Cooperative maintains its cash either in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor or in certain non-interest bearing accounts that are fully insured by the FDIC. As of December 31, 2012 and 2011, the Cooperative did not have cash in any one bank that exceeded the FDIC limit due to the Cooperative having funds swept nightly into repurchase agreements which are fully collateralized.

The Cooperative has not experienced any losses in its bank accounts and believes it is not exposed to any significant credit risk on cash.

Accounts Receivable

The Cooperative generally does not require collateral or other security to support accounts receivable. An allowance for doubtful accounts is maintained, based upon management's review of the year-end accounts receivable aging and past credit and collection history. Receivables are written off when the Cooperative determines an account is uncollectible. Past due status is determined based on how recently payments have been received.

Investments

Investments in which the Cooperative holds a 20%-50% interest are accounted for on the equity method. Investments accounted for on the equity method are recorded at cost and adjusted for the Cooperative's share of income or loss. Investments in which the Cooperative holds less than a 20% interest are recorded at cost, and income is recorded when dividends are received.

PIONEER TELEPHONE COOPERATIVE AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012 and 2011

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Materials and Supplies

Materials and supplies are stated at the lower of cost or market. Cost is determined principally by the average cost method.

Fair Value of Financial Instruments

The Cooperative's financial instruments, none of which are held for trading purposes, include cash and cash equivalents, receivables, payables, and notes payable. The Cooperative estimates that the fair value of all of these non-derivative financial instruments at December 31, 2012 and 2011 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying consolidated balance sheets.

Property, Plant, and Equipment

Telecommunications plant in service and under construction is stated at cost, including estimated overhead expense. Depreciation is calculated on a straight-line basis over the estimated life of the classes of property and equipment in accordance with rates consistent with industry standards. Depreciation rates range from 2.2% to 14.3%. Costs of plant retired are eliminated from telecommunications plant accounts and such costs plus removal expenses, less salvage, are charged to accumulated depreciation.

The Cooperative follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. In 2012, total interest incurred was \$212,369 (\$375,938 in 2011), of which \$18,147 was capitalized (\$31,972 in 2011).

Memberships

An initial refundable membership fee of \$1 is charged to all new member subscribers, which entitles the member to vote at the annual meeting.

Patronage Allocations

The net margin of the Cooperative is allocated to its members in proportion to a member's access minutes of use and local service. Losses sustained by the Cooperative may be allocated to the accounts of individual patrons or offset to other equity at the discretion of the Board of Directors.

Other Equity

Other equity represents the accumulated earnings of Pioneer Consolidated, Inc. and any unallocated equities and unallocated losses.

Network Access Revenues

Network access revenue related to intralata and interlata toll service is received under a system of access charges. Access charges represent a methodology by which local telephone companies, including the Cooperative, charge the long-distance carrier for access and interconnection to local facilities. The Cooperative has elected to file access tariffs through the Oregon Exchange Carrier Association (OECA) and the National Exchange Carrier Association (NECA). These access tariffs are subject to approval by the PUC for intrastate charges and the FCC for interstate charges.

When network access revenues have been received pursuant to the settlement and access agreements above, they are divided into traffic sensitive, nontraffic sensitive, and billing and collecting portions. The revenues are then either placed into a common pooling arrangement with other exchange carriers for redistribution or kept by the Cooperative. The redistributions are made according to formulas established by the governing boards of the pools and are generally based upon expenses incurred and investments maintained.

The Cooperative participates in various pooling arrangements with NECA and OECA.

PIONEER TELEPHONE COOPERATIVE AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012 and 2011

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Network Access Revenues, continued

Settlement, access, and pool distribution revenues are recorded when the amounts become determinable. Related expenses are recorded when incurred. Subsequent true-ups and retroactive adjustments, which are generally allowed for a period of 24 months (NECA pool only) after the close of the related calendar year, are recorded in the year in which such adjustments become determinable, based upon studies prepared by outside consultants.

In addition to recoveries from the pools, the Cooperative also receives revenues from the Universal Service High Cost Loop Fund administered by the Universal Service Administrative Company (USAC) and the Oregon Universal Service fund (OUS) administered by the PUC. The amount of support received from USAC is based on the number of customers served and the cost of providing service in that area being in excess of the national average cost per loop, as determined by the FCC, and are included in the network access revenues in the accompanying consolidated financial statements.

In 2012, the Cooperative received \$1,644,342 from the USAC High Cost Loop Fund (\$1,885,024 in 2011) and \$7,889,609 (\$5,497,988 in 2011) in interstate access revenues administered through the NECA Pools. In 2012 the Cooperative received \$701,341 from the OUS fund (\$407,907 in 2011).

National Broadband Plan and FCC Order

In 2010 the FCC issued the National Broadband Plan which outlined a long-term plan to increase broadband penetrations and services throughout the United States of America. The plan further outlined a proposed long-term phase-out of access charges (referred to as intercarrier compensation) and moved to support mechanisms based on broadband services rather than the current Universal Service High Cost Loop Fund administered by USAC.

In response to the plan, the FCC on October 27, 2011, approved Report and Order 11-161 (the Order), that begins the process of reforming the universal service and intercarrier compensation (ICC) systems and adopts support for broadband-capable networks as an express universal service principle. The Order further creates the Connect America Fund which will ultimately replace all existing high-cost support mechanisms as well as help facilitate ICC reforms. The Order, among other things, caps the federal universal service fund at current levels and reforms the current system by putting various limits on capital and operating spending, requiring minimum levels for local rates and capping the per-line support amount at \$250 per month. As of December 31, 2012 the Cooperative is transitioning local rates and is not subject to the \$250 per line support cap.

The Order also reforms the ICC system by adopting a plan to transition from access charges to a bill and keep framework. The transition period for rate-of-return carriers such as the Cooperative is 9 years. Recovery will be calculated initially based on the fiscal year 2011 interstate switched access revenue requirement and will decline annually by 5% during the transition period, which began July 1, 2012.

The Order includes the adoption of a monthly Access Recovery Charge as a transitional recovery mechanism to mitigate the impact of reduced intercarrier revenues. The Order was effective December 29, 2011, and implementation began on July 1, 2012. As of the implementation date, the Cooperative is subject to the 5% annual decline in interstate switched access revenue requirement during the 9 year transition period. For the period ended December 31, 2012 the impact to the Cooperative has not been significant.

The overall reform process will take place in phases and will take several years to implement. Further, the Order includes a Further Notice of Proposed Rulemaking and seeks comments on various items. The ultimate outcome of these proceedings and their impact is uncertain at this time.

Income Taxes

The Cooperative has been granted an exemption from Federal income taxes, except for "unrelated" business income, under Section 501(c)(12) of the Internal Revenue Code.

PIONEER TELEPHONE COOPERATIVE AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012 and 2011

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Income Taxes, continued

The Cooperative is also exempt from state income taxes. However, in any year for which greater than 15% of gross revenue is derived from nonmember services, the Cooperative becomes a taxable cooperative. The Cooperative was exempt from income taxes in 2012 and 2011. Federal and state taxes payable by taxable cooperatives are computed differently from taxes payable by other corporations, primarily because cooperatives are allowed to deduct margins allocated or paid to patrons within 8 1/2 months after the end of each taxable year. Pioneer Consolidated, Inc. is a taxable corporation and files a separate income tax return.

Deferred taxes represent the future tax return consequence of differences between the financial statement and the tax basis of assets and liabilities, which will either be taxable or deductible when the related assets or liabilities are recorded or settled. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Cooperative follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Cooperative recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. There were no amounts accrued in the consolidated financial statements related to uncertain tax positions.

The Cooperative files federal, state and local income tax returns. With limited exceptions, the Cooperative is no longer subject to examinations for years before 2009.

Subsequent Events

The Cooperative has evaluated subsequent events through April 5, 2013, which is the date the consolidated financial statements were available to be issued.

Note 2 - Other Assets and Investments

Other assets and investments, at cost, consist of the following:

	<u>2012</u>	<u>2011</u>
Communications Supply Service Association	\$ 25,000	\$ 25,000
National Telcom Corporation	50,000	50,000
Deferred charges	3,375	10,125
CoBank patronage certificates	1,235,205	1,216,617
ANPI Holding, Inc.	198,432	198,432
CHR Solutions, Inc.	<u>145,401</u>	<u>145,401</u>
Total, at cost	\$ <u>1,657,413</u>	\$ <u>1,645,575</u>
Other investments, equity method:		
Casco Communications, Inc.	\$ 1,280,489	\$ 1,060,084
Wilcom LLC	307,832	280,963
Pioneer LMDS, LLC	<u>-</u>	<u>134,750</u>
Equity Investments	\$ <u>1,588,321</u>	\$ <u>1,475,797</u>
Total Other Assets and Investments	\$ <u>3,245,734</u>	\$ <u>3,121,372</u>

The Subsidiary has a 50% ownership interest in Casco Communications, Inc. (Casco), a corporation providing internet access and other services. The investment is recorded using the equity method of accounting. Based on audited financial statements, the Subsidiary recorded income of \$220,405 related to this investment in 2012 (\$265,903 in 2011).

PIONEER TELEPHONE COOPERATIVE AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012 and 2011

Note 2 - Other Assets and Investments, continued

Following is a summary of financial position and results of operations of Casco Communications, Inc.:

	<u>2012</u>	<u>2011</u>
Current assets	\$ 2,018,238	\$ 1,223,959
Net property, plant, and equipment	581,804	636,408
Other assets and investments	<u>1,179,152</u>	<u>1,187,018</u>
	<u>\$ 3,779,194</u>	<u>\$ 3,047,385</u>
Current liabilities	\$ 447,265	\$ 363,315
Other liabilities	270,766	91,521
Noncontrolling interest	444,540	416,735
Stockholders' equity	<u>2,616,623</u>	<u>2,175,814</u>
	<u>\$ 3,779,194</u>	<u>\$ 3,047,385</u>
Operating revenue	<u>\$ 6,189,128</u>	<u>\$ 5,971,080</u>
Net income after taxes and noncontrolling interest	<u>\$ 440,809</u>	<u>\$ 531,806</u>

During the year ended December 31, 2012, the Cooperative recorded an investment loss of \$1,131 from Wilcom, LLC and contributed an additional \$28,000 in cash.

During the year ended December 31, 2012, the Cooperative's LMDS license was revoked by the FCC and as a result the investment was written off.

Note 3 - Property, Plant, and Equipment

Listed below are the major classes of telecommunications plant in service:

	<u>2012</u>	<u>2011</u>
<u>Pioneer Telephone Cooperative:</u>		
Land and support	\$ 7,258,324	\$ 7,240,178
Central office	14,233,687	15,741,539
Cable and wire facilities	<u>49,995,196</u>	<u>49,255,029</u>
Subtotal	<u>71,487,207</u>	<u>72,236,746</u>
<u>Pioneer Consolidated, Inc.:</u>		
Fiber optic cable and equipment	<u>569,878</u>	<u>531,880</u>
	<u>\$ 72,057,085</u>	<u>\$ 72,768,626</u>

PIONEER TELEPHONE COOPERATIVE AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012 and 2011

Note 4 - Long-Term Debt

Long-term debt consists of the following:

	<u>2012</u>	<u>2011</u>
Mortgage notes payable to CoBank, at various rates from 6.75% to 6.94%, payable in quarterly principal installments of \$613,636, collateralized by real and personal property, due in 2013	\$ 1,840,910	\$ 4,295,455
Less current portion	<u>1,840,910</u>	<u>2,454,545</u>
	\$ <u>-</u>	\$ <u>1,840,910</u>

Future maturities of long-term debt are as follows:

2013	\$ 1,840,910
------	--------------

The long-term debt agreement requires maintenance of defined amounts of equity and debt service coverage ratios. Management of the Cooperative believes they have met these covenants at December 31, 2012 and 2011.

The Cooperative has a \$3,000,000 revolving line of credit from CoBank at a variable rate of interest expiring in July 2014. At December 31, 2012 and 2011, there were no advances on the line of credit.

Note 5 – Income Taxes

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due and deferred income taxes.

Income tax expense consists of the following:

	<u>2012</u>	<u>2011</u>
Federal income tax	\$ 29,974	\$ 3,394
State income tax	5,484	500
Deferred income taxes	<u>49,593</u>	<u>-</u>
	\$ <u>85,051</u>	\$ <u>3,894</u>

The provision for income taxes differs from the amount computed by applying the current statutory federal income tax rate to earnings before income taxes due to the effects of state taxes, nondeductible items, differences in depreciation for book and tax purposes, and the tax-exempt status of the Cooperative.

Deferred income taxes in the accompanying consolidated balance sheets included the following components:

	<u>2012</u>	<u>2011</u>
Deferred income tax asset – deferred revenue	\$ 8,583	\$ -
Deferred income tax liability – depreciation and investments basis differences	<u>(58,176)</u>	<u>-</u>
Deferred income tax liability, net	\$ <u>(49,593)</u>	\$ <u>-</u>

In 2011 the Subsidiary had a net deferred tax asset of \$98,094 resulting from book to tax differences in accounting for investments, depreciation of fixed assets, and net operating losses. This net deferred tax asset was fully offset by a valuation allowance as no future taxable benefit was anticipated related to the asset. Accordingly the deferred tax asset was recognized in the financial statements in 2011. In 2012 all net operating losses from 2011 were fully utilized due to net income from operations.

PIONEER TELEPHONE COOPERATIVE AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012 and 2011

Note 5 – Income Taxes, continued

Deferred taxes have been recorded in 2012 to recognize the liability for future tax consequences from the prior use of accelerated depreciation for tax purposes and potential gain on the sale of an investment recorded on an equity method for financial statement reporting versus the original cost basis for tax purposes.

Note 6 - Employee Benefit Plans

Multiemployer Pension Plan

The National Telecommunications Cooperative Association (NTCA) Retirement and Security Program for Employees of the NTCA and its Member Systems (the Plan) is a defined benefit pension plan covering many of the full-time employees of NTCA, its affiliates and its members that have adopted the Plan. Pursuant to IRC Section 413(c)(4), the Plan is considered a Multiple Employer (other) Master Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. The Plan's employer identification number is 52-0741336 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Cooperative is a participant in the above described plan. The Cooperative's contributions to the Plan in 2012 and 2011 represented less than 5 percent of the total contributions made to the Plan by all participating employers. The Cooperative made contributions to the Plan of \$531,131 in 2012 and \$541,308 in 2011. There have been no significant changes that affect the comparability of 2012 and 2011 contributions.

In the Plan, a "zone status" determination is not required and therefore, not determined under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations of plan assets are not determined or allocated separately by individual employer. In total, the Plan is 100% percent funded at January 1, 2012, based on the PPA funding target and PPA actuarial value of assets on that date.

Because the provisions of PPA do not apply to the Plan, funding improvement plans and surcharges are not applicable and have not been applied. Future contribution requirements are determined each year as part of the actuarial valuation of the Plan and may change as a result of plan experience. There is no collective bargaining agreement that affects future contribution requirements.

The Cooperative also participates in a contributory multi-employer defined contribution savings plan (the Plan) sponsored by the NTCA that covers all full-time eligible employees and contributes 3.5% of each eligible employee's annual salary to the Plan. The Cooperative's contribution to the Plan, including amounts charged to construction at December 31, 2012, was \$154,331 (\$157,942 in 2011).

Note 7 - Related Party

The Cooperative provides customer account processing for Casco Communications, Inc. relating to their DSL services. Amounts payable to Casco Communications, Inc. were \$207,169 and \$200,310 at December 31, 2012 and 2011, respectively. A corresponding receivable from the Cooperative customers is included at December 31, 2012 and 2011.

The Cooperative also provides network access to Casco Communications, Inc. Total revenues billed for these services were \$1,130,968 in 2012 (\$1,122,200 in 2011). Amounts receivable from Casco Communications, Inc. were \$96,221 and \$76,264 at December 31, 2012 and 2011, respectively.

The Cooperative utilizes after-hours telephone answering services and DSL services provided by Casco Communications, Inc. Total amounts paid for these services were \$83,088 in 2012 (\$80,905 in 2011).

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CPAs AND BUSINESS CONSULTANTS

Personal. Local. Global.

April 5, 2013

To the Board of Directors
Pioneer Telephone Cooperative and Subsidiary

Dear Members of the Board of Directors:

We have audited the consolidated financial statements of Pioneer Telephone Cooperative and Subsidiary (the Cooperative) for the year ended December 31, 2012 and have issued our report thereon dated April 5, 2013.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in our engagement letter dated July 16, 2012. Professional standards also require that we communicate to you the following information related to our audit.

QUALITATIVE ASPECTS OF ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Cooperative are described in Note 1 to the December 31, 2012 consolidated financial statements. No new accounting policies were adopted and the applications of existing policies were not changed during 2012. We noted no transactions entered into by the Cooperative during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the consolidated financial statements in the proper period.

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Significant accounting estimates reflected in the Cooperative's 2012 consolidated financial statements include; the allowance for doubtful accounts receivable, useful lives of property, plant and equipment, and fair value measurements of financial instruments and investments.

During the year ended December 31, 2012, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates. We evaluated the key factors and assumptions used in determining that those estimates are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the consolidated financial statements taken as a whole.

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DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the consolidated financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated April 5, 2013.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Cooperative's consolidated financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Cooperative's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

With respect to the supplemental information accompanying the consolidated financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the consolidated financial statements. We compared and reconciled the supplemental information to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Pioneer Telephone Cooperative and Subsidiary and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss this report with you further at your convenience.

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